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SEPT 1988

PurchasingWorld®

Major issues in transportation

Software review: part II ▪ **Rough year for metals buyers**

NAPM upgrades seasonal indicators

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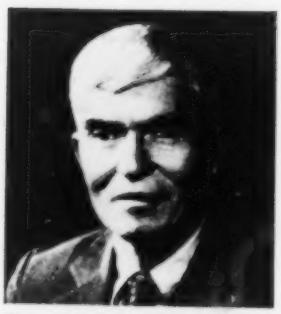

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Need a 146-foot long super-payload truck?

Capable of legally transporting extremely heavy payloads over highways is the 146-foot long air-ride trailer from Art Brockman Inc. A rear-mounted hydraulic steering platform controls three pivot turning joints allowing this giant to turn corners or position itself in even the tightest places for easy loading.

This rig spreads the load over 18 axles and 70 wheels. It is certified by individual states for "super load" capabilities. **Circle 295**

21st survey updates corporate employee relocation policies

Corporate relocation policies are becoming more liberal, with greater provisions being made primarily in the area of home sale and home purchase assistance, according to the 21st annual survey on the topic produced by Atlas Van Lines. The 62 question study, which examines trends and practices related to relocation of employees, is the longest running survey of its kind. For a free copy of the survey, **Circle 296**

Personalized diskettes are offered to quantity users

Customers can have their own logo or identification custom-imprinted on the outer jackets of high-quality computer diskettes under the "Personalized diskette program" from 3M Co. The program includes 8″ and 5.25″ diskettes and 3.5″ microdiskettes in all data storage capacities.

Alan Henaman, market development manager for 3M diskette products, says of the program: "There's the positive image for an organization using diskettes that display its official name or symbol. There's positive protection because diskettes marked with the company's imprint are more likely to stay on the premises, or be returned if they are removed. But most importantly, there's the positive identification this program provides for an organization's computer property and the data it contains."

The minimum quantity for total orders is 10,000; a minimum run of 5,000 for individual items. **Circle 260**

Custom fabricated metal components out source

Compression, torsion and extension springs, plus wire forms, stampings and assemblies are available from custom manufacturer Spring Engineers, Inc., Dallas. The firm offers a full range of services including material selection assistance, spring design, tool and die work, heat treating, finishing and special packaging.

Spring Engineers specializes in cobalt, nickel and titanium-based "Super" alloys, and is one of the largest buyers of these exotic alloys in the world. Many buyers take advantage of the firm's large inventory by placing blanket orders at quantity prices and drawing upon it is as needed. **Circle 69**

Boston is site of 1989 NAPM Conference

The largest professional association of purchasing and materials management personnel, the National Association of Purchasing Management, will hold its 74th annual International Purchasing Conference April 30 through May 3 at the Marriott and Westin Hotels, Copley Place, in Boston.

The event is expected to draw more than 2,000 practitioners for four days of workshops, professional development seminars, panel discussions and plenary sessions focusing on the theme, "Revolution in Purchasing and Materials Management." A 60-booth educational exhibit and several pre-conference seminars will also be featured.

The Purchasing Management Association of Boston, NAPM's largest local affiliate, will host the event. General conference chairman is Richard Miranda, C.P.M. of Multi-Bank Financial Corp. **Circle 66**

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by Robert S. Reichard, executive editor

No fears on price front

Prices may be moving up at a faster pace than a year ago, but there's little evidence to support projections for big near-term advances.

Much has been made of low unemployment rates and their impact on wage costs. But nothing really significant has happened here. Private industry's labor bills have gone up only 4.5% over the past 12 months—not much more than the 3% increase of the previous year. Also reassuring: Wages of workers covered by major contracts signed during the first half of 1988 will rise an average of only 2.6% in the first year of the pacts.

One possible reason for this restraint is the wave of restructuring that has hit U.S. industry in recent years. Since restructuring often means lost jobs, workers now worry more about job security than pay hikes.

Wage costs are also being held in check by a still-rising productivity offset—at least in the crucial manufacturing sector. Factory efficiency grew at a 3.2% and 3.5% annual rate in the first and second quarters, respectively. Upshot: Factory unit labor costs have advanced at only a 1.5% annual rate so far this year—hardly the climate usually associated with spiraling price increases.

And labor isn't the only good news on the price front. Equally important is today's anti-inflationary financial environment—namely a declining rate of growth in money supply over the past few years. This could be the reason for still-low inflation rates. It's all in sharp contrast to the last decade when a rapidly growing money supply coincided with 5% and higher annual price advances.

The oil situation also has to be considered a moderating price force. Global petroleum output has consistently exceeded demand in recent months. And the existing glut is likely to grow even bigger as Iran and Iraq seek funds to rebuild their devastated economies.

Even the "drought effect" has been overblown. At most, it will mean a 1-2% increase in food costs over the next 12-18 months. And since food is only a small portion of the economy, the overall impact on inflation should be minimal.

Don't forget the somewhat improved dollar. The leveling off here *vis a vis* such currencies as the Japanese yen and German mark suggests that the steady stream of import price boosts may soon be coming to an end. Indeed, look hard enough and some slight deceleration in the rate of advance in import tags can already be discerned.

Also encouraging is the leveling off in raw material quotes. Some metals, plastic resins, and chemicals are at peak levels. But the point to keep in mind is they are no longer rising—at least not on an across-the-board front. This, too, should help put a limit on future price advances.

Finally, there are the vendors themselves. Faced with global competition for both domestic and foreign markets, they are likely to think twice before raising prices. There is already some evidence to back this up. Recent domestic increases in the auto and machinery areas have been moderate, as those suppliers pass up the quick buck and opt to recapture markets from their overseas competitors.

Put all the above into the price forecast equation, and it's easy to see why policy makers like Alan Greenspan of the Fed remain optimistic about limiting near-term price increases. His latest projection for the all-inclusive GNP price deflator calls for a rise of only 2.75-3% this year—and a slightly higher 3-4.5% advance.

Import price increases greater than U.S. averages

Add another few percentage points onto import prices—with the average incoming tab (excluding the volatile fuel component) moving up another 2.3% over the latest 3-month period.

All told, these prices—as reported by the Bureau of Labor Statistics—are up an eye-opening 8.7% over the past year. That's double the 4% advance noted in overall domestic producer prices over the same 12-month period.

About the only positive sign in the latest report was that the rate of advance seems to be slowing down. Six and three months ago, the import price boosts were 2.8% and 2.4%, respectively.

Here's a more detailed rundown of latest quarterly changes on a sector-by-sector basis:

Crude materials: Prices—spearheaded by rubber, metal ores, pulp, and textile fibers—jumped 6.7%. This follows a 5.8% first quarter increase and brings the 12-month advance to 18.6%.

Chemicals: A modest 1.8% boost was recorded—well under the 4.3% and 3.7% hikes of the previous two quarters. Drugs moved up the most (3.7%)—with organics and inorganics advancing only 1.4% and 0.3%, respectively.

Intermediate manufactured products: Averages, led by metal tags, moved up 5.8% this past quarter—somewhat more than the 3-4% boosts of the previous four quarters. Blame the acceleration on nonferrous metals—up 6.5%, and iron and steel—up 6.0%. But prices for paper and paperboard items slowed down.

Machinery: Average boosts slowed to 1.5%—following increases of 1.9% and 2.7% in the previous two quarters. Small increases hit road vehicles, electrical machinery, metal-working machinery, general industrial machinery and specialized machinery.

Change coming in forms

Look for some dynamic changes in the $8 billion U.S. business forms industry over the next five years.

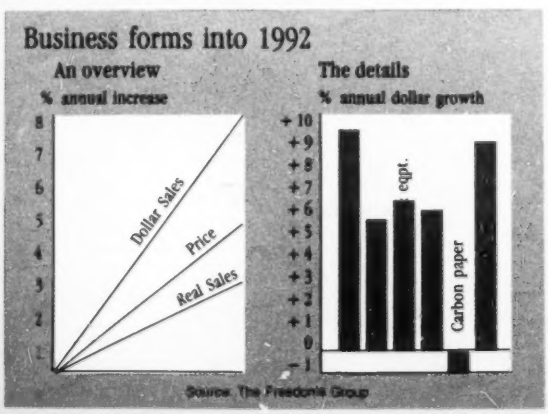
So predict analysts at Cleveland's Freedonia Group, who attribute the projected shifts to a combination of factors, namely 1) the growth of personal computers and associated printers, 2) high paper prices and scarce supplies, and 3) advances in printer technology and other means of information transfer.

As for the actual changes forecast—they include a move toward more simplified forms, greater use of carbonless paper in multiple part forms, more value-added products, (often involving the jobbing out of orders to specialized manufacturers), greater technical servicing, and a trend toward short-run orders.

As for demand, Freedonia analysts are betting on a 3% real growth per year through 1992. Add in an estimated 5% annual price advance, and the current dollar boost is likely to be around 8% a year—enough to push total sales to $12 billion by 1992.

On a product-by-product basis, biggest gains (9.7% a year in current dollar terms) are seen for continuous forms. Manifold books will show a 9.1% advance—with somewhat smaller 5-6% annual dollar increases expected for unit-set forms, loose leaf binders and associated equipment, and inked ribbons. But a 2% decline is seen for carbon paper.

Marketing, should be playing an increasingly important role—due in large part to the shift to smaller volume orders and the widespread use of computers by small businesses. Then, too, there could be a shift away from the use of supplier in-house sales forces—and toward marketing through computer clubs, catalogs, direct computer ordering systems, telemarketing, direct mail, and aggressive independent sales forces.



Office space still buyers' market

The buyers' market in office space isn't about to end. On the other hand, bargains may be a bit harder to find as overall vacancy rates drop two percentage points under last year's 21.5% all-time high. Most of the decline has been in the suburbs—as downtown availability remains unchanged. Industrial vacancies are holding in the 6% range—little changed from earlier readings. Reason: Most of today's capital spending emphasizes productivity-enhancing equipment rather than the purchase of additional plant space.

Robots ebb

Demand continues to disappoint—with shipments at latest report sinking to the lowest level in four years. With the auto market effectively saturated, there is apparently very little interest on the part of other industries. Not much price inflation here either—as U.S. vendors face stiff competition from the Japanese. Some modest demand gains could lie ahead as robotic vendors begin to integrate vision systems into their products.

Paper prices slow

The across-the-board increases of the first half seem to be slowing down. Moreover, newsprint prices won't go up in October and maybe not even in early 1989. Sign of the times here: Spot discounts of 15% or more. Another linerboard boost also

Titanium increases continue

Another 3% is being added onto alloy sheet and plate, commercially pure plate, and billet products. The only consolation: A first quarter 1989 effective date. Unfortunately, that will be followed by another 2% increase next spring.All told, prices for this important metal have jumped a hefty 25% since last summer. Behind all these increases: Higher raw material costs and strong demand. Shipments are up some 13%—sparked by increased buying from the aircraft, paper, and chemical industries.

Ethylene glycol in tight supply

Figure on a fourth quarter increase. That's on top of the 10-15¢/lb advances that went into effect in July—boosts which brought the antifreeze grade up into the 45-50¢/lb range. And there's talk of tight supplies continuing into winter—with little opportunity for any inventory rebuilding until next spring. Behind the snugness: Good demand plus a series of refinery explosions which took a big bite out of the supply.

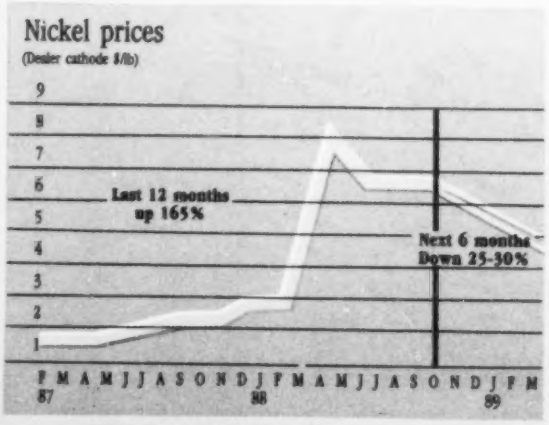
Nickel quotes run high above 1987

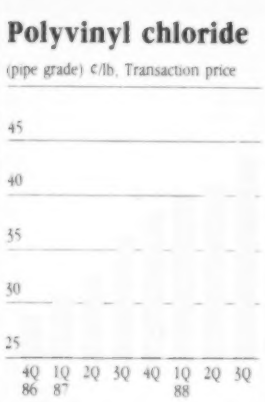
CURRENT SITUATION: Prices have been the big story for this key alloying and plating metal. Starting from a low point of about $1.75/lb. last spring, quotes soared to an all-time high of near $8.40/lb. a few months back. Some slippage has occurred since then, but not enough to prevent quotes from remaining close to 300% above last year's low. **Behind the early 1988 runup: A sudden surge in global demand to new peaks.**

DEMAND: Global consumption looks to be up by nearly 5% this year—reaching a record 660,000 metric tons. One major factor: The booming stainless steel end-use market which, sparked by a capital equipment boom, could be up by an even more impressive 7%. Alloy steel demand also remains strong—with support from the engineering, oil and gas, and construction sectors. Other end-use areas of strength: Aerospace, plating markets, and coinage.

SUPPLY: Latest estimates suggest a 36,000 metric ton global deficit this year. Specifically, Free-World production of 564,000 tons plus 30,000 tons of imports from the Socialist world will still fall short of estimated consumption of 660,000 metric tons. **Upshot: Producer inventories by year end could be down to a low 5-week supply.** And even this presupposes new work stoppages in areas where new contracts are up for renegotiation.

PRICE OUTLOOK: A gradual softening seems to be in the making as markets slowly come back into better balance. But don't expect any tumble to the $2/lb average of the 1985-87 period. **Best bet by early next year: A price near $5/lb**—assuming, of course, no new labor interruptions. And by the end of 1989 (when a small surplus is expected to develop) a further decline to near $4 can't be ruled out.





Pipe grade PVC prices should hold

A new 2¢/lb increase for PVC to around 44¢/lb should hold. Behind the boost: Tightness and rising prices in two key raw materials—as ethylene and vinyl chloride monomer tags are up 54% and 12%, respectively, since the beginning of the year. The polymer is fairly tight, too, as operating rates remain in the 90%-plus range for the second straight year. Things should begin to ease up as the PVC industry adds nearly 20% to its production potential over the 1988-90 period.

Tool steel still bullish

No sign of change in this bull market—one sparked by strong demand in durable markets and reduced foreign competition. Leadtimes for the metal (used for stamping machines, making dies and molds, and for cutting other steel) are particularly troublesome—with today's typical 18-20 week wait nearly double the normal level. Moreover, projections point to continued strength through fall and winter and into early 1989. Prices have moved up twice so far this year—with some popular grades up nearly 14% over this period.

Communications tags down

Some tags are still heading down. This is especially true of business phone costs where averages dropped another 0.4% in the second quarter—enough to bring the total decline to 23% since the Bell System restructuring in 1984. And in another sphere, GE Information Services has sharply reduced its fees for transmitting information from one EDI network to another. Compuserve, a relatively new player in the market, is offering new users 3 months of service free, eliminating monthly subscription fees and establishing low-cost connections with other networks.

Computers up and down

A mixed picture here. On the downside, Amdahl has knocked 10-14% off its mainframes to better compete with IBM models. On the other hand, the firm is following IBM's lead in raising prices on some maintenance contracts by 5%. Also in the maintenance area, IBM has decided to offer maintenance for customers with

other-than-IBM equipment. The only prerequisite for signing on with IBM: You must have a regular IBM maintenance agreement covering IBM equipment and an IBM CPU somewhere in the loop ranging in performance from its System/36 to its biggest 3090 mainframe.

You'll pay more for components

Be prepared to pay 2-25% more for memory boards. The rise in this key product—used to expand the capabilities of basic-model computers—can be traced to the recent price surge in dynamic random access memory chips. Nor are DRAMs the only problem in the component area. There's also a world-wide shortage of static RAMs—and prices here could continue to edge up. EPROM chip quotes seem to have stabilized after an almost 20% advance over the past year and a half.

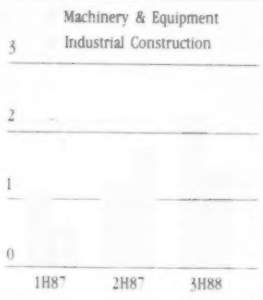
seems uncertain as the industry continues to digest increases which have brought prices up a hefty 28% since early 1987. On the other hand, a few increases are still being reported—including one in solid bleached folding carton grades (up $55/ton—to $730/ton) and another in coated bleached bristol grades (up $40-50/ton).

Capital goods pick up

The price pace for machinery is beginning to pick up a bit according to a new survey by the Kemper Group. All told, equipment tags rose 2.2% during the first six months of the year—(or 4.4% at annual rate) close to double the pace of the previous six months. More important, the current rate of advance is expected to spill over into the second half—fed by recent dollar weakness and a pickup in demand. Industrial building costs were still advancing at a relatively low 1.5% rate over the latest six month period—thanks to relatively stable material and labor costs.

Capital Goods

(% increase in price)



ABS resins advance

Add another 4-5¢/lb onto the popular plastic—with transaction quotes for the pipe grade now at 87-92¢/lb. Compared to a year ago, the plastic has jumped an even more impressive 18-19¢/lb. Blame the advance on booming demand (expected to be up 4% this year on top of last year's 12%). Supplies though remain fairly ample.

Construction trend pushes prices up, too

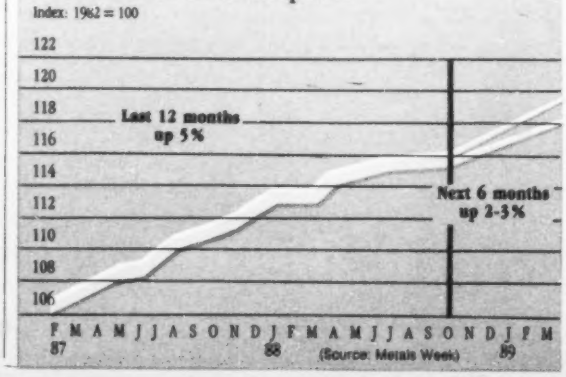
CURRENT SITUATION: A fairly good year-to-date construction pattern has helped push tags up an average of 5% above a year ago. But there have been none of the big price swings that have characterized earlier years—primarily because supplies have generally been ample. Here's how individual product quotes have advanced *vis a vis* a year ago: Structural steel (4.5%), lumber (1.5%), cement (2%), sand (5.5%), crushed stone (3%), gypsum (no change), plywood (2.5%), brick (10%), and concrete sewer pipe (7%).

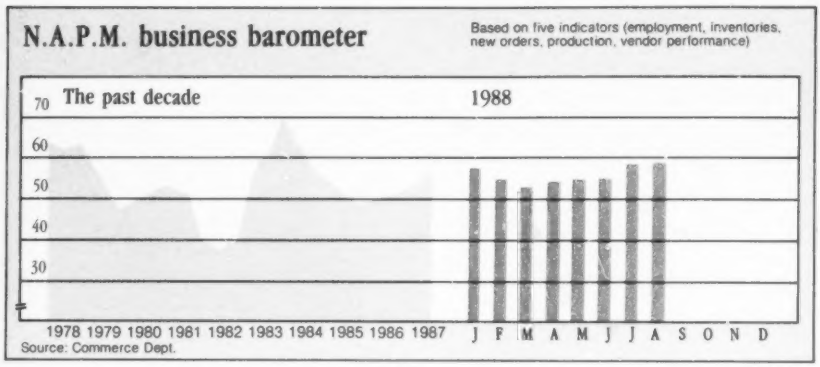
DEMAND: Some leveling off is anticipated this fall—reflecting the negative impact of higher mortgage rates on overall construction activity. Housing starts this year are expected to fall more than 100,000 units (to 1.5 million) and hold at these levels through 1989. This suggests little near-term demand buoyancy. **Lumber and wood** output could be off 4-5% this year—with **paving and roofing materials** following a similar pattern.

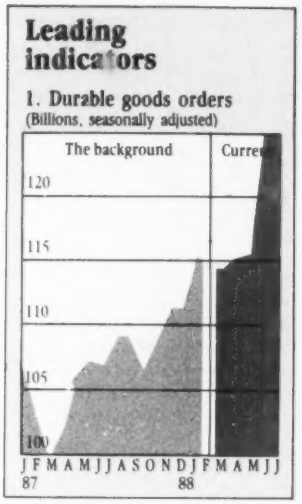
SUPPLY: No serious problems are anticipated. That's true even for steel, where earlier fears of spotty tightness in structurals has all but disappeared. Also nothing but an unpleasant memory: Last year's shortfall in flat glass. Elsewhere, the relatively small price impact of a Pacific Northwest lumber and plywood strike would seem to attest to the still ample supplies in these areas.

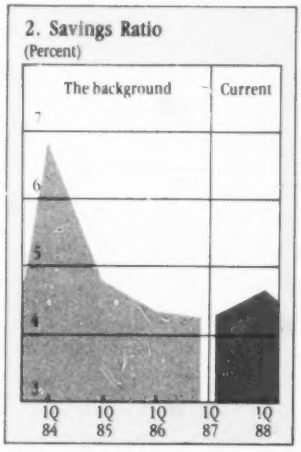
PRICE OUTLOOK: Continued less-than-sensational demand over the next six months suggests only a 2-3% overall advance over this period. Moderation is likely to persist into next summer—with these 12-month (3Q 1989 *versus* 3Q 1988) increases anticipated. Flat glass (3%), softwood lumber (2%), insulation materials (4.5%), building paper (5%), paving and roofing materials (5.5%), and wire products (5%).

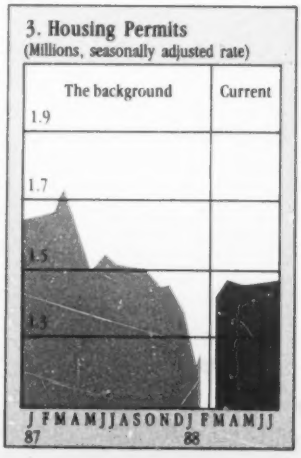
Construction material prices




N.A.P.M. business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1988
70
60
50
40
30
1978 1979 1980 1981 1982 1983 1984 1985 1986 1987
J F M A M J J A S O N D
Source: Commerce Dept.







KEY ECONOMIC TRENDS

Government stats point to growth

Discount talk of any near-term business slowdown. Indeed, judging from the latest batch of Washington statistics, the next few months could turn out to be as robust as the last few.

Certainly the leading barometers bear this out. The widely monitored NAPM yardstick (see accompanying chart) remains well above the neutral 50 mark—virtually assuring another few months of solid advance.

Plant managers seem to agree. A new Dun & Bradstreet survey found that 46% of these factory executives expect output to continue to rise—and only 14% see a near-term decline.

Another plus: Inventories, which held back growth earlier this year, are now in pretty good shape. There are a few exceptions like steel, but most stocks are quite trim.

If there's any doubt on that score, take a look at the latest factory stock/sales ratio. It's now at the lowest point on record, suggesting that any new orders will quickly be translated into new production.

And these new orders certainly seem to be coming in. In the latest reported month, new factory bookings ran nearly 5% ahead of month-earlier readings—although it should be noted that some of that gain reflects a one-time surge in aircraft and defense orders.

Orders for plant and equipment seem to be in solid uptrend, as corporations step up their capital spending plans. Particularly encouraging are orders for machine tools which are now at their highest level since the 4Q 1980. Because these tools are used to shape most metal parts, they are a decent barometer of plant spending by producers of durable goods.

Export orders are also doing extremely well, reflecting the impact of last year's dollar decline *vis a vis* other currencies. Actual exports are up strongly as well—real volume of outgoing shipments are now running 19% ahead of a year ago.

Further confirmation of the export boom comes from the NAPM Business Survey Committee. New figures show that of the 70% of companies which export, 39% reported increases in orders from abroad over the past month.

In the meantime, consumers are still in a spending mood. Note from the chart that the savings ratio remains quite low compared to the levels of a few years back.

One reason for this, of course, is a continuing high level of confidence fostered by solid consumer income gains. On the latter score, real disposable income is up a solid 4% over a year earlier.

The current rise in interest rates isn't likely to put much of a crimp in such spending, either. Reason: The rate increase is not all that great.

On the other hand, higher interest charges could slow housing activity a bit—an area which in recent months has managed to stage a modest recovery

from beginning-of-year lows. If nothing else, rising mortgage costs will prevent any further recovery to the highs of early last year (see chart).

Even so, overall construction won't have that bad of a year, primarily because industrial construction continues to advance. Still-strong overall construction figures—close to last-year's levels—also indicate that the construction industry is not about to fall out of bed.

Boom straining factory capacity

The production boom (industrial output at last report was running 6% ahead of a year ago) is beginning to strain the capacity of the nation's factories.

Lest there be any doubt on this score, take a look at the accompanying chart. It shows the overall factory operating rate rising above the 83% mark—up four percentage points from the low point hit two years ago.

And what's true of the overall average also holds for most subgroups. Thus the industry-by-industry rundown accompanying the chart points to increased utilization in all areas except textiles. The biggest increases are in some of the critical sectors—notably metals, chemicals and machinery.

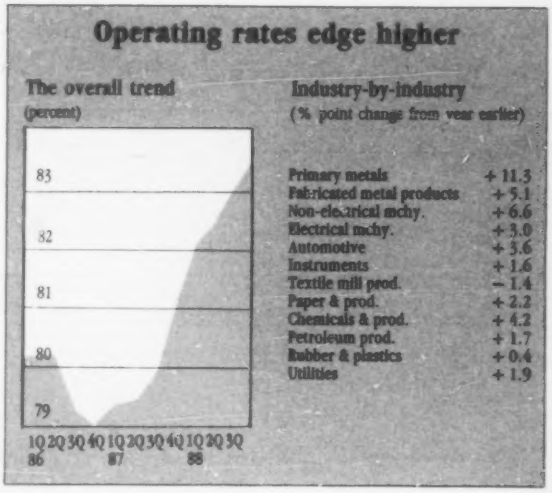
An 83% average factory utilization rate is still tolerable (85% is normally regarded as the crossover point where shortages become endemic) but it does suggest something that will bear close watching.

Fortunately, the nation's top executives have been raising their capital spending sights—with plant and equipment expenditures this year expected to be up 10%. So some relief is on the way.

Also reassuring are estimates on what this spending will mean in terms of new capacity. One recent study, for instance, sees close to a 7% increase in production potential for the year.

On the other hand, it usually takes a while to iron out problems with new equipment. Implication: It may not be until sometime next year before supplies finally begin to ease up.

As such, a factory operating rise of another percentage point or so through year end can't be ruled out. Then look for a leveling off, and maybe a drop back to current levels by mid-1989—as the new capacity is superimposed on the smaller industrial production gains forecast for that period.



CURRENT PRICES

Let's hear less about inflation

The latest price news out of Washington would seem to belie the recent talk about accelerating inflation.

Industrial averages (as measured by the Bureau of Labor Statistics) are still rising. But the latest monthly increase—put at 0.2%—comes to less than 2.5% at annual rate.

Part of the restraint this past 30 days can be traced to energy, where overall prices dropped 1.6%. Declines in natural gas, home heating oil, residual fuel, diesel fuel, liquid petroleum gas and crude petroleum more than offset seasonal boosts in gasoline and somewhat higher electricity rates.

Also on the encouraging side: A slowdown in the rate of capital goods advance where 0.4% increases of the previous two months gave way to only a 0.1% boost. The only noteworthy increases here last month were those posted on construction equipment, industrial furnaces, and transformers and power regulators.

On a less rosy note, chemical and allied products continued their upward march, with a new 3.2% increase in organics helping to push the overall industrial chemical average up 2.7% (the biggest such advance in seven years). Plastic resins followed suit, rising by 2.8%—enough to push averages here close to 19% above year-earlier levels.

Paper is still rising—with small increases noted for paperboard, corrugated cartons, paper office supplies and waste paper. But talks with government price analysts suggest that things may be ready to level off a bit in this sector.

Ditto for metals, where aluminum, zinc and steel scrap increases are now at least being offset by some easiness in copper, brass and precious metals. And while steel is still inching up, there are signs here that future advances will be smaller and more widely scattered.

The same will probably be true for construction materials which advanced a strong 0.7% over the past 30 days. Reason: An expected demand slowdown, stemming from higher mortgage rates, could well put a damper on increases by winter—particularly in such market-sensitive areas as lumber and cement.

Circle 159 on card ►

STEEL SCENE

Signs point to fall-off

Most signals now suggest a modest fall-off in steel demand. Not only are inventories (both on the service center and buyer levels) high, but both groups aren't as ebullient about overall business activity.

It can best be summarized by looking at predictions on steel demand over the next three months. Thus 33% of the buyers queried by the latest NAPM survey expect to reduce their steel intake over this period—nearly twice as many as the 17% who are contemplating increases in their receipts.

Distributors responding to the latest Steel Service Center Institute (SSCI) survey tell much the same story. Indeed, an even more impressive 40% expect a decline in incoming steel orders—far more than the 16% who feel that things could improve.

This expected slowdown also shows up in new projections by SSCI president Andrew G. Sharkey. As he puts it, "Service centers will be hard pressed to retain their existing 5% lead over last year's levels in the second half."

He goes on to say, "On the whole, most important steel consuming markets, with the possible exception of energy are still sound. We anticipate that the third and fourth quarters will be strong, although unable to match last year's exceptionally strong second half. As such, the overall gain for the year will be about 3%, *versus* the 5% gain of the first half."

Sharkey is also concerned about the high level of distributor inventories. Service center steel holdings edged a bit lower in terms of days' supply over the past month. But they are still far above levels prevailing one year ago (see chart).

Service center responses back up Sharkey's warning on inventories. Some 58% consider their stocks too high while only 5% dub them on the low side relative to current shipment levels.

A modest inventory problem is also apparent on the buyer level—judging from PM responses to a question on what they intend to do with their steel tonnages over the next six months. Specifically, 56% plan on cutbacks and not one buyer contemplates an increase.

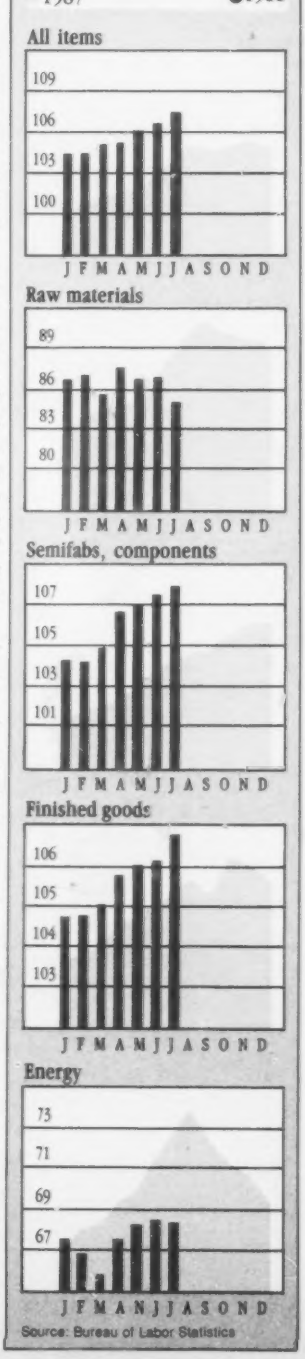
This month's breakdown

Index: 1982 = 100

	Latest level (July)	% change from: Month ago	Year ago
Bearings	112.2	0.3	4.0
Bolts, nuts, etc.	106.7	−0.1	3.4
Chemicals, inorganic	102.0	1.4	7.9
Chemicals, organic	110.5	3.2	14.9
Concrete products	110.0	−0.2	0.5
Corrugated cartons	111.2	0.5	11.1
Cutting tools, small	107.0	0.0	0.8
Electric lamps (bulbs)	122.2	0.2	1.2
Electronic components	117.7	−0.1	2.4
Fans and blowers	114.1	−0.4	3.2
Foundry and forge products	110.1	0.5	4.4
Fuel oil (residual)	39.2	−10.3	−32.6
Furniture, commercial	124.7	0.8	5.1
Gasoline	60.9	2.9	−1.8
Glass, flat	109.7	0.5	2.1
Glass containers	112.2	0.0	0.7
Gypsum products	108.3	−1.8	−12.7
Hand tools	119.8	0.0	3.1
Hand tools, power driven	111.6	0.0	2.6
Industrial furnaces	121.0	1.1	5.8
Integrating and measuring instruments	114.0	−0.3	0.2
Internal combustion engines	111.2	0.3	1.5
Lubricating oil	106.5	2.7	8.1
Lumber millwork	122.2	−0.1	3.1
Material handling equipment	107.6	0.2	3.2
Metal containers	109.6	−0.4	0.6
Metal mill shapes (nonferrous)	130.8	1.6	24.1
Metal tanks	105.4	0.8	8.9
Motors and generators	121.5	−0.2	5.6
Motor trucks	124.1	0.1	3.9
Office and store equipment	107.1	0.0	3.6
Paperboard	134.3	0.2	15.7
Paper boxes and shipping containers	124.5	0.3	8.3
Paper office supplies	115.0	0.5	6.7
Paint	112.7	0.4	4.3
Plastic resins	134.1	2.8	18.9
Precision measuring tools	121.4	−0.1	4.3
Pumps and compressors	109.1	0.5	3.7
Refractories	114.0	0.0	3.1
Rubber belts and belting	105.6	0.0	2.4
Scales and balances	105.7	−0.2	1.9
Steel products	111.2	0.2	9.6
Switchgear	113.3	−0.3	2.5
Textiles, synthetic fibers	97.7	0.9	6.9
Textiles, gray fabrics	114.9	0.3	6.4
Tires and tubes	95.3	1.3	4.7
Transformers and power regulators	108.6	1.2	1.8
Welding equipment	118.2	0.1	6.4
Wire and cable	127.1	2.5	21.6

Industrial prices

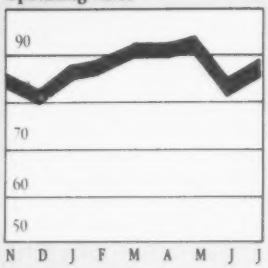
(Index: 1982 = 100)



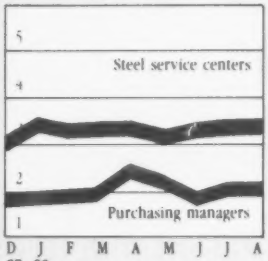
Source: Bureau of Labor Statistics

Steel

Operating rates

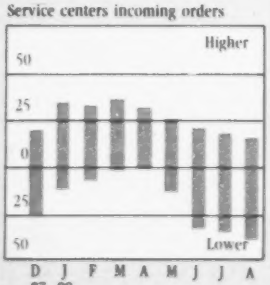


Inventories
(Months supply on hand)

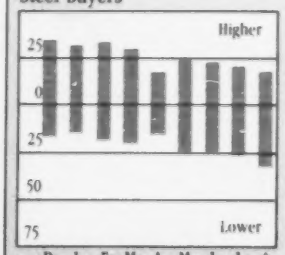


Demand
(Percent of respondents)

Service centers incoming orders



Steel buyers



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

Given the above responses it's easy to see why most forecasters are calling for a meaningful drop-off in second half mill shipments—to perhaps only 37 million tons *versus* the 42 million that cleared the market during the first six months of the year.

Despite the expected demand drop, most buyers remain concerned about availability—particularly in the plate and hot-rolled sheet areas. But such fears are likely to abate by fall when mill operating rates slip and leadtimes start edging down.

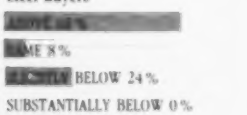
Another sign that the long bull market may be leveling off is the fact that fewer service centers expect big (over 5%) price increases over the next six months. At latest report, only 3% of the respondents were worried about this kind of increase—well under the 39% high recorded at the end of 1987.

Price boosts are still expected into early 1989 but they're in the 2-5% range—pretty much in line with the general inflation rate.

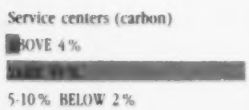
Also worth noting is that a significant 8% of queried steel service centers are now thinking in terms of declining prices. While hardly earthshaking, this does represent the biggest percentage in 16 months.

Import prices
(Compared to domestic)

Steel Buyers



Service centers (carbon)



PROCUREMENT STATUS

Leadtimes stay put

Modest upward and downward movements in leads almost balanced each other last month. As a result, ***PurchasingWorld*** magazine's exclusive leadtime index remained fairly close to the neutral 50 level—indicating little or no overall trend.

A general loosening up in the electric and electronic sector was about the only noteworthy development (see chart). Six of the nine products reported shorter waits over the past month.

Elsewhere, steel and nonferrous metals were basically mixed. In the latter category a narrowing in aluminum was offset by some fractional stretchouts in zinc, tin, and some of the other minor metals.

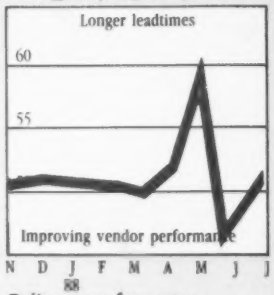
Some overall improvement did show up in another series—the NAPM survey on vendor delivery speeds. Thus while those reporting slowdowns still outnumber those getting faster service, the gap last month diminished considerably.

But this could be a seasonal effect. As the NAPM puts it, "many respondents reported their plants were closed for normal maintenance and va-

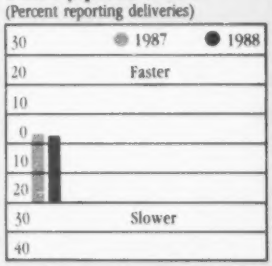
Monthly procurement status report –

Leadtime index

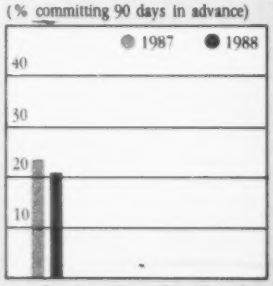
A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



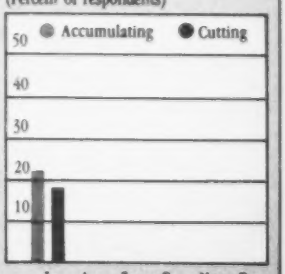
Delivery performance
(Percent reporting deliveries)



Forward commitments
(% committing 90 days in advance)



Inventory strategy
(Percent of respondents)



Source: NAPM

cations, which may have contributed to the mid-summer easing in slower deliveries."

The NAPM short-supply rundown is still quite impressive. Items listed as being tight last month included such key metals as aluminum, nickel, carbon steel, stainless steel, and magnesium. And in the chemical and allied product sector, problems were noted for nylon fabric, caustic soda and soda ash, polyethylene, acrylic acid, ethylene oxide, ethylene glycol, other ethylene derivatives, methanol, MDI, and titanium dioxide. A few paper items—notably printing papers and bleached paperboard—were also cited as being hard to get.

Health and safety cost more

The nation's capital equipment buyers can expect to spend 12% more than in 1987 for safety and health gear—on top of last year's even bigger 15% advance. All told, more than $7 billion will be earmarked for these purposes in 1988.

But 1989 could bring some temporary respite—as companies begin to catch up with installing government-mandated protective equipment for the workplace. A new McGraw-Hill/DRI survey suggests overall spending for these purposes next year could be down by as much as 10%.

Totals, however, don't tell the whole story. Several industries (including steel and nonferrous metals) will actually be accelerating their outlays for health and safety gear in 1989. And others (like non-electrical machinery, fabricated metals, and chemicals), while showing decelerating gains, will still be increasing at double-digit rates.

Given these increases, there will be little long-term respite for this kind of capital spending. Since the beginning of the decade, percentage changes have alternately been negative and positive, suggesting that health and safety spending over the next few years viewed as a whole won't be all that different from the last few years.

Safety and health problems never disappear. New government and worker concerns, new processes, and new products will always require new outlays to upgrade the nation's workplaces.

It also means that 2-3% of a manufacturer's capital equipment bill will continue to be earmarked for workplace enhancement.

Leadtimes (in weeks)

	Month ago	Latest month
CHEMICALS-PLASTICS		
Adhesives	3	3
Naphthalene	2½	3
Paint	3	3½
Paint, Coil Coating	3	3½
Paint, Maint.	2½	3
Polyester Resin	1	1
Polyethylene Resin	4½	4
PVC Resin	5½	5
Titanium Dioxide	2	2
ELECTRICAL & ELECTRONIC		
Cables	8½	8½
Circuit Breakers	4	4½
Electromech. Devices	7	6½
ICs (Linear)	7½	6
Motors, Fractional Horsepower	12	11
Motors 1-10 HP	11	9½
Motors 10 HP & Up	11	9½
Relays	8	8
Transformers	10	9
LUMBER		
Hardwood	3	3
Plywood	3	2½
Softwood	2½	2½
Particleboard	3	3
OFFICE PRODUCTS		
Copiers	2	2½
PCs Workstations	4½	4½
Facsimilies	3	3½
Pre-printed Form	4	3
Elex Typewriter	3	3
Furniture	5	5½
Printers	3½	3½
Telecommunications	8	7½

	Month ago	Latest month
PACKAGING		
Bags, Kraft	4½	4
Bags, Multiwall	6½	5½
Cartons, Corrugated	2½	2½
Cartons, Folding	2½	3
Cellophane Wrap	4	4
Plastic Bags	5	5
Plastic Pkg.	5	5
Shrink Film	2	2½
Drums, Fiber	2½	2½
Drums, Steel, Std.	2½	2½
Wood Pallets	2½	3
Wirebound Boxes	4	3½
Strapping	2½	3
PAPER		
Fiberboard	4½	4½
Glassine	5	5
Groundwood	5	5
Kraft	2½	3
Kraft, Bleached	3½	3
Kraft, Natural MFNS	1½	1½
Laminated	7	7
Tissue	5	5
NONFERROUS METALS		
Aluminum Coil	15	14
Aluminum Plate	21	19
Aluminum Sheet	17	15
Brass Castings	8	8
Brass Rods	8	7½
Brass Sheet	8½	8½
Brass Tube	8½	8½
Copper Fittings	3	3½
Copper Mill Prod.	5½	5
Copper Tube	4½	5
Lead	4½	5
Magnesium	3	3½

	Month ago	Latest month
Manganese	8	8
Nickel	3½	3½
Silicon	1½	2
Tin	2½	3
Wire, Specialty	4½	5
Zinc	3½	4½
MISCELLANEOUS		
Bearings, Domestic	6½	8
Bearings, Foreign	16	14
Fasteners	6	7
Fasteners, Std.	2½	3½
Insulation Mat'l.	7	6
Machined Parts	6	7
Pipes & Valves	4	4
Rubber, Synthetic	2	2
Rubber Hose	4	4
Tungsten Carbide Parts	14	13
Valves, Cast Steel	5	5
Welding Supplies	2½	2
STEEL		
Cold-Drawn Bars	4	4
Cold-Rolled Sheet	11	10
Forgings	11½	12
Galvanized	3	4
Grey Iron Castings	9	9½
Hot Rolled Bars	3½	4
Pipe, Carbon	4½	5
Plate	10½	9½
Sheet	13½	12½
Sheet Castings	8½	8
Structurals	9	8
Tubing	6½	6½

Figures represent the average leadtimes from various locations.

Discounts from a higher base

The freight rate picture is beginning to change. To be sure, bargains and discounts are still around. But they're harder to find—and more and more they're being calculated off a higher rate base.

At least that's how purchasing managers queried in a nationwide *PurchasingWorld* magazine transportation survey see things. Respondents also note that rates are now rising faster than they have over the past 12 months. Equally significant, this trend is expected to spill over into 1989.

Behind the slowly changing freight procurement climate: 1) Increasing energy, labor and other costs and 2) a still-rising economy—one which is helping to reduce carrier overcapacity.

In any case, the *PW* survey finds that more than half of those queried expect their transportation bills to rise 4-6% in the year ahead. That's not nearly as good as the past 12 months when about three out of every four reported increases of 3% or less (see chart).

Viewed from a slightly different perspective: More than half of the respondents now anticipate some near-term rate acceleration--with most of the others hopeful they can hold boosts to this past year's prevailing levels.

Wharton Econometrics in its latest quarterly *PW* transportation forecast (see accompanying story) seems to back up this somewhat more inflationary rate forecast. Analysts at the Pennsylvania-based business consulting firm, for example, put this year's average increase for all transportation modes at 5%—pretty much confirming purchasing managers' views.

But averages don't tell the whole story. Both Wharton and survey respondents see some important mode-by-mode differences. Those who use barges face the biggest problems—reflecting recent large rate boosts occasioned by the Midwest drought.

Firms that use ocean freight for exporting are also concerned about significant increases—particularly on goods destined for the Far East. On the other hand, some softness continues in overseas shipments into the U.S.

Trucker increases are being sparked by the recently-inked Teamsters contract which adds 10% onto wages over the next three years. Not surprising, two small rate increases (in April and June) have already been posted by many trucking companies.

There's another labor problem here, too: The shrinking pool of potential drivers. One company traffic director figures that the available labor supply could drop by as much as 10% over the next two years—enough to put further upward pressure on an already rising rate structure.

Rail shipments, on the other hand, present fewer problems—though here, too, rates have been creeping up. But increasing emphasis on intermodal shipments, more specialized equipment, and faster, more efficient service all suggest that shippers won't fare all that badly in this sphere over the next year or so.

Air freight rates, prodded by strong demand gains, are again

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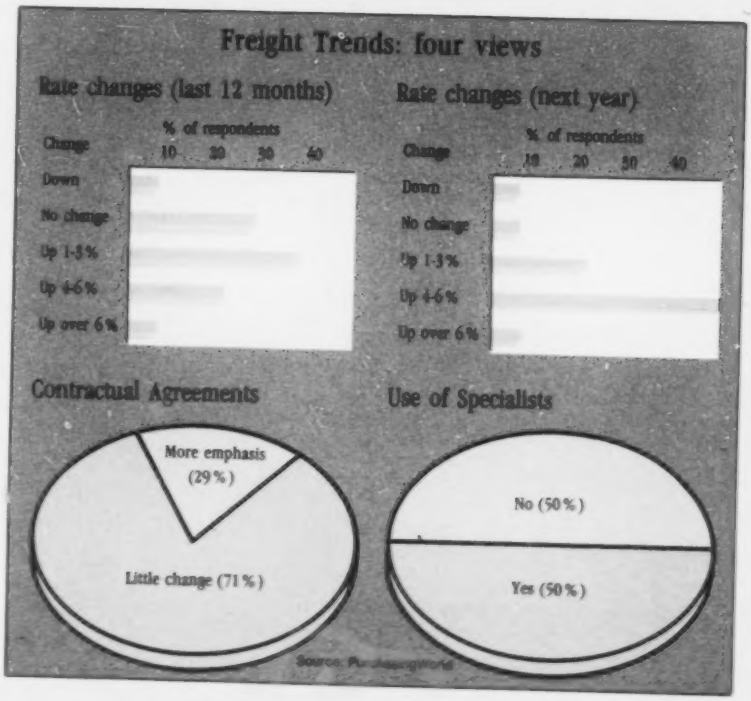

showing some fair-sized rate advances. And this includes both domestic and international flights. On the latter score, both outgoing North Atlantic and Pacific flights (where strong export flows are expected) are targeted for increases ranging as high as 10% this fall.

But nobody is about to push the panic button—in air or anywhere else. For one, most of the rate increases represent catchups after years of softness. Then, too, increases aren't all that big; they're pretty much in line with the general inflation rate.

Last but not least, there are still plenty of opportunities for negotiation and bargaining. Thus, virtually every transportation buyer who can offer some sort of volume guarantee is able to knock something off official lists—with discounts in some instances running 30% or higher.

Other survey findings that indicate that rates are still a two-way street: 1) More than one out of three have made some modal changes to cut costs over the past year or so, 2) close to half now make use of brokers, shipping associations, agents, and other specialists, and 3) about one in four are putting more emphasis on contractual agreements some of which now run well over a year.

The contract approach, say some, is paying off handsomely. Indeed, savings in almost all cases run in the double-digit range. But whatever the savings, this approach is catching on—with some firms now committing 75% of their shipments to long-term pacts.

Also on an upbeat note: Most buyers still rate their carriers' performance as "good"—and a few even dub it as "excellent." That's not to say there aren't some delays, damaged shipments, and billing errors. But they are relatively few in number—as inter- and intra-industry competitive pressures force carriers to continue upgrading service and overall performance.

PW

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Freight rates up—for now

There's bad news and good news on the freight rate front.

First the bad news: Overall 1988 estimated increases have been scaled up from three months ago—the average freight bill is now expected to rise by 5% *vis a vis* last year. That's more than a full percentage point above the 3.9% estimate made in June (*PW* 6/88).

But forecasts for 1989 and 1990 (supplied exclusively to *PW* by Wharton Econometric Forecasting Associates—the WEFA Group) suggest slightly lower advances than previously anticipated. Next year's 4.3% overall boost compares to an earlier 4.7% estimate. And 1990's revised 5.5% boost is fractionally under figures provided in June.

Here's a more detailed rundown of what Wharton sees ahead for each of the major transportation modes:

Barge: The drought has wreaked havoc on inland water routes. Mississippi levels have dropped sharply—and Coast Guard restrictions have doubled or tripled the time required for river passages, with loads cut to reduce the risk of grounding.

The resulting higher operating costs have sparked barge rate increases as high as 25% on some routes. But next year should bring a dramatic reversal. A fractional 0.2% rate decline is forecast—in sharp contrast to this year's estimated 6.7% runup. As for 1990, a more normal 3.9% increase is projected.

Trucking: Demand gains will be somewhat harder to come by than in 1987 when tonnage soared by an eye-opening 10.8%. Reason: That earlier period had some extra help from both 1) the capturing of a bigger share of the market from competing modes and 2) an increase in non-manufacturing shipments.

Despite smaller 1988 tonnage gains, rate increases are expected to run well above last year's estimated 3.0% advance—primarily because of the shortage of drivers. Best bet: A 4.9% increase in the average rate for the current year—with a similar advance anticipated for 1989. Some acceleration is possible by 1990 when an increase of 5.6% is forecast by WEFA analysts.

Rail: The modest demand increases of last year are continuing thanks to significantly higher metal tonnages. Also, small gains are still reported for chemicals, motor vehicles, and other products.

Piggyback traffic, meantime, continues to be the healthiest volume segment. These intermodal links (with an assist coming from double-stack LTL carriage)—plus continuing general competition with truckers—are helping to keep cost advances down. Sign of the times: Rail rate boosts over the latest 3-month period (as measured by the Bureau of Labor Statistics) came to only 1.4%.

And the moderation is expected to continue. For the year as a whole, Wharton puts the overall rail freight advance at 3.9%. On the other hand, some acceleration to 4.7% and 5.6% is anticipated for 1989 and 1990, respectively.

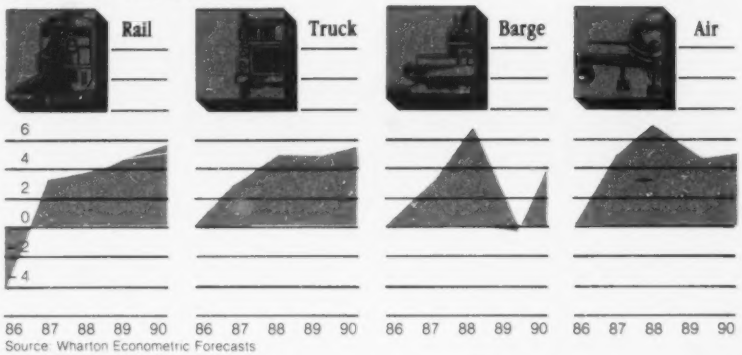
Air freight: Last year's 9.5% demand increase was no fluke—and gains this year will top the 12% mark.

Rate increases should be substantial this year (about 6.5% overall). Somewhat more modest 5.25% and 5.5% boosts, however, are projected for 1989 and 1990, respectively.

One area likely to sport higher-than-average rate increases this year is outbound international shipments across both the Pacific and North Atlantic. Boosts as high as 10% are seen for this fall. ***PW***

Freight cost outlook by mode

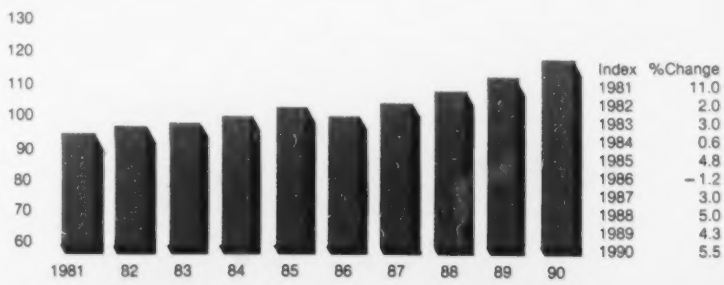
(percent increase over previous year)



Source: Wharton Econometric Forecasts

PurchasingWorld freight rate index

(1982 = 100)

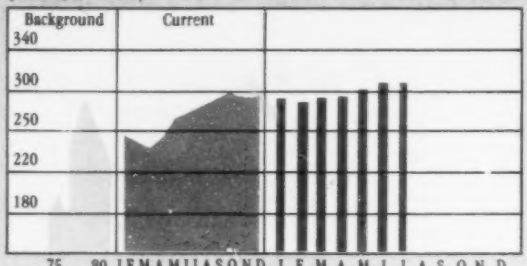


Index	%Change
1981	11.0
1982	2.0
1983	3.0
1984	0.6
1985	4.8
1986	-1.2
1987	3.0
1988	5.0
1989	4.3
1990	5.5

Raw material price barometer

(Index 1967 = 100)

Latest month 308.9
Month before 309.5
Year ago 284.2



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	16.50	16.50	16.50
Steel, bars, Pitts., cwt.	16.50	16.50	16.50
Steel, bars, C.R., Pitts., cwt.	19.45	19.45	19.45
Steel, plates, Pitts., cwt.	22.75	22.75	19.75
Steel, plates, H.R., Pitts., cwt.	22.75	22.75	19.75
Steel, sheets, C.R., Detroit, cwt.	28.15	28.15	26.90
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	1.210	1.220	.765
Antimony, N.Y., dealer, lb.	.99	.95	1.06
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.65
Brass, red, 85%, [sheet], lb.	1.60	1.71	1.47
Brass, yellow, [sheet], lb.	1.55	1.66	1.42
Cadmium, N.Y., dealer, lb.	7.80	8.00	1.45
Copper, electrolytic, wire bars, refd., lb.	.96	1.07	.83
Copper sheet, over 24 in., lb.	1.68	1.79	1.56
Lead, common, N.Y., lb.	.36	.36	.42
Magnesium, pig ingot, [99.8%], lb.	1.58	1.58	1.53
Mercury, 20 fl. lots, N.Y., fl.	370.00	370.00	300.00
Molybdenum, oxide, dealer, lb.	3.37	3.39	2.75
Nickel, cathode, dealer, lb.	6.60	6.60	2.32
Platinum, dealer, oz.	534.00	543.00	630.00
Silver, N.Y., oz.	6.68	6.97	7.76
Tin, N.Y., dealer, lb.	3.37	3.32	3.04
Zinc, Prime West, East St. Louis, lb.	.66	.66	.47
Zinc, die casting alloy, No. 3, lb.	.735	.735	.525
PAPER			
Uncoated book #3 offset, ton	920.00	920.00	860.00
Watermarked bond, ton	1070.00	1070.00	985.00
Gummed sealing tape, carton	17.76	17.71	17.17
Grocery sacks, ton	455.00	455.00	390.00
Solid bleached paperboard, ton	685.00	685.00	620.00
Kraft linerboard, 42 lb., unbleached, ton	410.00	410.00	350.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.281	.276	.240
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.20	1.22	1.22
Cotton middling, 1", N.Y., lb.	.604	.577	.734
Printcloth, 48", 80x80, N.Y., spot, yd.	.520	.490	.970
Army duck, 37", 13 oz., yd.	1.510	1.510	1.495
Blended printcloth, 64", 78x54, yd.	.72	.65	.94
20s combed yarns	1.96	2.00	1.98
Wool 64s, Staple, lb.	4.50	4.50	2.70
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	91.00	100.00	105.00
Benzene, petroleum, tanks, Houston, gal.	1.11	1.08	.95
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.735	.735	.810
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.58	.55	.32
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.350	.350	.295
Polyethylene resin, low density liner film grade (market place), lb.	.525	.465	.345
Polypropylene, homopolymer grade (market price), lb.	.525	.515	.440
Polystyrene, general purpose grade (market price), lb.	.600	.600	.535
Polyvinyl chloride, pipe grade (market price), lb.	.420	.420	.340
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.450	.450	.400
Sulfur, crude, ex-terminal, Tampa, Fla., lt.	132.00	127.50	127.50
Sulfuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.870	.870	.770
Xylene tanks, gal.	.910	.870	.820
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	336.75	330.55	331.50
Lumber 2x2 pine, mbf, cl	329.45	321.85	334.10
Plywood, plyform, ¾", msf, cl	578.79	578.60	585.15
Plywood, ⅜", msf, cl	399.05	412.45	389.00
Cement, bulk, ton, tl	65.45	66.39	64.25
Sand, ton, cl	7.67	7.43	7.17
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	48.01	48.01	49.08
Crushed stone, 1½", ton, cl	8.56	8.57	8.28
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.90	0.91	0.90
Gypsum sheathing, ½"x1"x8", msf, tl	228.43	228.43	228.23
Brick, common, per thousand, tl	218.88	218.88	198.26
Asphalt paving, AC-20	120.78	121.95	132.97
Concrete sewer pipe, 12", prem. joint, per foot, cl	6.98	7.58	7.51
FUELS			
Crude oil (W. Tex Int Cush), bbl.	15.70	14.70	21.00
Diesel (reseller rack, Chi), gal.	.4450	.4275	N.A.
Fuel oil No. 2 (N.Y.), gal.	.4375	.4040	.5415
Fuel oil No. 2 (Gulf spot), gal.	.4125	.3900	N.A.
Fuel oil No. 6 (N.Y.) contract cargo, bbl.	16.50	15.75	N.A.
Gasoline (reg lded NY), gal.	.4910	.6125	.5540
Gasoline (reg unlded NY), gal.	.4700	.5900	.5440
Kerosene (reseller rack, Chi), gal.	.4750	.4750	N.A.
Propane (Mt. Belvieu, Tex), gal.	.2100	.1900	.2600
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	120.00	120.00	89.00
Steel, No. 1 hvy., dlvd., Chi., ton	120.00	120.00	83.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.855	.885	.735
Copper, No. 2, East, wholesale buy, dlvd., lb.	.760	.780	.650
Brass, red, East, wholesale buy, dlvd., lb.	.815	.845	.695
Brass, yellow, East, wholesale buy, dlvd., lb.	.470	.470	.365
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.650	.655	.490
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.730	.730	.555
Zinc, old, East, wholesale buy, dlvd., lb.	.240	.240	.200
Lead, clean solids, East, wholesale buy, dlvd., lb.	.225	.220	.275
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	25.00	20.00	40.00
Paper, old corrug. box, dlr., N.Y., ton	10.00	10.00	25.00
Old newspapers, Chi., ton	10.00	10.00	N.A.
Old white ledger, Chi., ton	85.00	85.00	N.A.

[Sources: Metals Week, American Metal Market, Engineering News-Record (20-city averages), Wall Street Journal, Journal of Commerce, Chemical Marketing Reporter.]